

Transco General Notice

"Amendment of Imbalance Calculations to enable Elective Aggregation of Demand across one or more Shipper ID's"

Version 2.0

Implications of Modification 0553 on Credit Arrangements

A summary note prepared by Transco for the Energy Balancing Credit Committee (EBCC)

Issues for consideration

- Although demand would be reallocated to one principle User, scheduling charges and Reconciliation (GRE) would be incurred at an individual User level, therefore exposures would need to be aggregated in order to monitor successfully.
- In turn, potential changes to Credit Exposure monitoring system to aggregate exposures could have a significant impact on replacement system delivery currently planned for Dec 2002 and may even result in redevelopment at a later date.
- Exposure measured in aggregate may result in reduced volume of cash calls. Conversely this could mask an increased level of financial exposure prior to escalatory action being taken, which in turn would be smeared via neutrality
- There is a possibility that if only the lead shipper were terminated then another member of the group could be elected as lead and continue trading. It would be prudent to apply any escalatory actions e.g. sanctions or termination to all companies in group.
- Increased level of exposure to individual counter parties across the portfolio in turn leads to increased risk. This would further highlight the requirement for a minimum level of security based upon throughput.
- There may be insufficient appetite in the market for counter parties to provide securities supporting the aggregated exposures
- Impact on processing of CVA (Claims Validation Agent) data would need to be considered
- Network Code provisions under Section V and SU would need to be modified.

Termination Triggers Impacted

- In the event of default for late payment or failure to pay CCN, in order to protect the community escalatory actions would need to be taken against the lead party but would have to be binding on all parties. However this would have an adverse affect on the remaining companies within the group and it would act as a trigger for Termination for all relevant accounts.
- If exposures are aggregated, then the impact on all of one User becoming Insolvent or its licence being revoked would need to be considered. Conversely the impact of a User wishing to initiate a voluntary discontinuance would also need to be considered.

- Inconsistent with the proposals in Ofgem's credit consultation document as infers parental support / cross subsidy.